

**Introduced by Committee on Revenue and Taxation (Senators Wolk  
(Chair), Alquist, Ashburn, Padilla, and Walters)**

March 15, 2010

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An act to amend Sections 19191 and 19194 of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

SB 1492, as introduced, Committee on Revenue and Taxation. Income taxes: voluntary disclosure agreements.

Existing income and corporation tax laws authorize the Franchise Tax Board to enter into voluntary disclosure agreements with specified entities.

This bill would, for any agreement entered into on or after January 1, 2011, require the agreement to specify that the board may extend the time for filing returns and paying amounts due to the later of 2 specified dates. This bill would provide that no additions to tax imposed by certain provisions is required on an underpayment of estimated taxes, as specified.

Existing law provides that a voluntary disclosure agreement is null and void in the event that the board finds that certain circumstances exist, including where the entity fails to pay an installment payment due within a prescribed time.

This bill would provide that an applicant that has entered into a voluntary disclosure agreement who is applying for an installment payment arrangement has a specified time period to pay in full any tax, fee, penalty, or interest due.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. Section 19191 of the Revenue and Taxation Code is amended to read:

19191. (a) The Franchise Tax Board may enter into a voluntary disclosure agreement with any qualified entity, qualified shareholder, qualified member, or qualified beneficiary as defined in Section 19192, that is binding on both the Franchise Tax Board and the qualified entity, qualified shareholder, qualified member, or qualified beneficiary.

(b) The Franchise Tax Board shall do all of the following:

(1) Provide guidelines and establish procedures for qualified entities and their qualified shareholders, qualified members, or qualified beneficiaries to apply for voluntary disclosure agreements.

(2) Accept applications on an anonymous basis from qualified entities and their qualified shareholders, qualified members, or qualified beneficiaries for voluntary disclosure agreements.

(3) Implement procedures for accepting applications for voluntary disclosure agreements through the National Nexus Program administered by the Multistate Tax Commission.

(4) For purposes of considering offers from qualified entities and their qualified shareholders, qualified members, or qualified beneficiaries to enter into voluntary disclosure agreements, take into account the following criteria:

(A) The nature and magnitude of the qualified entity's previous presence and activity in this state and the facts and circumstances by which the nexus of the qualified entity or qualified shareholder, qualified member, or qualified beneficiary was established.

(B) The extent to which the weight of the factual circumstances demonstrates that a prudent business person exercising reasonable care would conclude that the previous activities and presence in this state were or were not immune from taxation by this state by reason of Public Law 86-272 or otherwise.

(C) Reasonable reliance on the advice of a person in a fiduciary position or other competent advice that the qualified entity or qualified shareholder, qualified member, or qualified beneficiary activities were immune from taxation by this state.

(D) Lack of evidence of willful disregard or neglect of the tax laws of this state on the part of the qualified entity or qualified shareholder, qualified member, or qualified beneficiary.

1 (E) Demonstrations of good faith on the part of the qualified  
2 entity.

3 (F) Benefits that will accrue to the state by entering into a  
4 voluntary disclosure agreement.

5 (5) Act on any application of a voluntary disclosure agreement  
6 within 120 days of receipt.

7 (6) Enter into voluntary disclosure agreements with qualified  
8 entities, qualified shareholders, qualified members, or qualified  
9 beneficiaries, as authorized in subdivision (a) and based on the  
10 criteria set forth in paragraph (4).

11 (c) Before any voluntary disclosure agreement becomes binding,  
12 the Franchise Tax Board, itself, shall approve the agreement in the  
13 following manner:

14 (1) The Executive Officer and Chief Counsel of the Franchise  
15 Tax Board shall recommend and submit the voluntary disclosure  
16 agreement to the Franchise Tax Board for approval.

17 (2) Each voluntary disclosure agreement recommendation shall  
18 be submitted in a manner as to maintain the anonymity of the  
19 taxpayer applying for the voluntary disclosure agreement.

20 (3) Any recommendation for approval of a voluntary disclosure  
21 agreement shall be approved or disapproved by the Franchise Tax  
22 Board, itself, within 45 days of the submission of that  
23 recommendation to the board.

24 (4) Any recommendation of a voluntary disclosure agreement  
25 that is not either approved or disapproved by the board within 45  
26 days of the submission of that recommendation shall be deemed  
27 approved.

28 (5) Disapproval of a recommendation of a voluntary disclosure  
29 agreement shall be made only by a majority vote of the Franchise  
30 Tax Board.

31 (6) The members of the Franchise Tax Board shall not  
32 participate in any voluntary disclosure agreement except as  
33 provided in this subdivision.

34 (d) The voluntary disclosure agreement entered into by the  
35 Franchise Tax Board and the qualified entity, qualified shareholder,  
36 qualified member, or qualified beneficiary as provided for in  
37 subdivision (a) shall to the extent applicable specify that:

38 (1) The Franchise Tax Board shall with respect to a qualified  
39 entity, qualified shareholder, qualified member, or qualified

beneficiary, except as provided in paragraph (4), (6), or (9) of subdivision (a) of Section 19192:

(A) Waive its authority under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001) to assess or propose to assess taxes, additions to tax, fees, or penalties with respect to each taxable year ending prior to six years from the signing date of the voluntary disclosure agreement.

(B) With respect to each of the six taxable years ending immediately preceding the signing date of the voluntary disclosure agreement, based on its discretion, agree to waive any or all of the following:

(i) Any penalty related to a failure to make and file a return, as provided in Section 19131.

(ii) Any penalty related to a failure to pay any amount due by the date prescribed for payment, as provided in Section 19132.

(iii) Any addition to tax related to an underpayment of estimated tax, as provided in Section 19136.

(iv) Any penalty related to Section 6810 or subdivision (a) of Section 8810 of the Corporations Code, as provided in Section 19141 of this code.

(v) Any penalty related to a failure to furnish information or maintain records, as provided in Section 19141.5.

(vi) Any addition to tax related to an underpayment of tax imposed under Part 11 (commencing with Section 23001), as provided in Section 19142.

(vii) Any penalty related to a partnership required to file a return under Section 18633, as provided in Section 19172.

(viii) Any penalty related to a failure to file information returns, as provided in Section 19183.

(ix) Any penalty related to relief from contract voidability, as provided in Section 23305.1.

(2) The qualified entity, qualified shareholder, qualified member, or qualified beneficiary shall:

(A) With respect to each of the six taxable years ending immediately preceding the signing date of the written agreement:

(i) Voluntarily and fully disclose on the qualified entity's application all material facts pertinent to the qualified entity's, shareholder's, member's, or beneficiary's liability for any taxes imposed under Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001).

(ii) Except as provided in paragraph (3), within 30 days from the signing date of the voluntary disclosure agreement:

(I) File all returns required under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001).

(II) Pay in full any tax, interest, fee, and penalties, other than those penalties specifically waived by the Franchise Tax Board under the terms of the voluntary disclosure agreement, imposed under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001) in a manner as may be prescribed by the Franchise Tax Board. Paragraph (1) of subdivision (f) of Section 25153 shall not apply to qualified entities admitted into the voluntary disclosure program.

(B) Agree to comply with all franchise and income tax laws of this state in subsequent taxable years by filing all returns required and paying all amounts due under this part, Part 10 (commencing with Section 17001), or Part 11 (commencing with Section 23001).

(3) The Franchise Tax Board may extend the time for filing returns and paying amounts due to 120 days from the signing date of the voluntary disclosure agreement *or to the latest extended due date of the return for a taxable year for which relief is granted, whichever is later.*

~~(e)~~

*(e) No addition to tax under Sections 19136 or 19142 shall be made for any underpayment of estimated tax attributable to the underpayment of an installment of estimated tax due before the signing date of the voluntary disclosure agreement.*

*(f) The amendments to this section made by Chapter 954 of the Statutes of 1996 shall apply to taxable years beginning on or after January 1, 1997.*

~~(f)~~

*(g) The amendments to this section made by Chapter 543 of the Statutes of 2001 shall apply to voluntary disclosure agreements entered into on or after January 1, 2002.*

~~(g)~~

*(h) The amendments to this section made by Chapter 543 of the Statutes of 2001 shall apply to voluntary disclosure agreements entered into on or after January 1, 2005.*

*(i) The amendments to this section made by the act adding this subdivision shall apply to voluntary disclosure agreements entered into on or after January 1, 2011.*

SEC. 2. Section 19194 of the Revenue and Taxation Code is amended to read:

19194. (a) Notwithstanding any other provision of this article, a voluntary disclosure agreement shall be null and void in the event that the Franchise Tax Board finds that with respect to the agreement any of the following circumstances exist:

(1) The qualified entity has misrepresented any material fact in applying for the voluntary disclosure agreement or in entering into the agreement.

(2) The qualified entity fails to file any returns for any taxable year covered by the voluntary disclosure period agreed upon on or before the due date prescribed under the terms of the agreement in accordance with paragraph (2) of subdivision (d) of Section 19191.

(3) (A) The qualified entity fails to pay in full any tax, fee, penalty, or interest due within the time prescribed under the terms of the voluntary disclosure agreement in accordance with paragraph (2) of subdivision (d) of Section 19191 or to pay any installments thereof due within the time prescribed under the terms of an installment payment arrangement in accordance with subparagraph (B).

(B) The Franchise Tax Board may enter into an installment payment arrangement, which shall include provisions for interest, in lieu of the full payment required under paragraph (2) of subdivision (d) of Section 19191. Failure by the qualified entity to comply with the terms of the installment payment arrangement shall also render the voluntary disclosure arrangement null and void.

(C) *Notwithstanding subparagraphs (A) and (B), an applicant applying for an installment payment arrangement shall have the same time periods as identified in paragraphs (1) and (2) of subdivision (d) of Section 19008 to pay in full any tax, fee, penalty, or interest due.*

(4) The tax shown by the qualified entity on its tax return filed for any taxable year covered by the voluntary disclosure agreement, including any amount shown on a qualified amended return, as defined in Section 1.6664-2(c)(3) of Title 26 of the Code of Federal Regulations, understates by 10 percent or more the tax imposed under either Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001) and the qualified entity cannot

1 demonstrate to the satisfaction of the Franchise Tax Board that a  
2 good-faith effort was made to accurately compute the tax.

3 (5) The qualified entity fails to begin to prospectively comply  
4 with all franchise and income tax laws of this state as agreed upon  
5 under the terms of the voluntary disclosure agreement in  
6 accordance with paragraph (2) of subdivision (d) of Section 19191.

7 (b) In the event that the Franchise Tax Board finds that the  
8 qualified entity has failed to comply under any of the circumstances  
9 which render the voluntary disclosure agreement null and void as  
10 set forth in subdivision (a), the limitation on assessment for any  
11 taxable years and the waiver of any penalties as provided for in  
12 paragraph (1) of subdivision (d) *and subdivision (h)* of Section  
13 19191 shall not be binding on the Franchise Tax Board.

14 (c) *The amendments to this section made by the act adding this*  
15 *subdivision shall apply to voluntary disclosure agreements entered*  
16 *into on or after January 1, 2011.*